CRITICAL INDUSTRIES COMMISSION

ANNUAL REPORT

for the period
January to December 31,
1986

Province of
British Columbia

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Province of
British Columbia

OFFICE OF THE
COMMISSIONER OF CRITICAL INDUSTRIES

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March 1, 1987

The Hon. Mel Couvelier
Minister of Finance
Parliament Buildings
Victoria, B.C
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Dear Minister,

On behalf of the Critical Industries Commission, I hereby take pleasure in submitting the second annual report of the Commission for the 12 months ending December 31, 1987.

Respectfully submitted,

A. Phillips

Arthur Phillips
Commissioner

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COMMISSIONER'S REPORT

After nearly two full years of operation, I think it is safe to say that the Critical Industries Act was a government experiment that worked. It has worked because it is not a typical government handout program. With every new case, we have started with a hard-nosed assessment of the company. If it did not appear potentially viable, the company was told that we could not help.

Where the company's problem has appeared correctable we have attempted to get as many parties as possible to contribute to the solution. Government contributions have been modest. In fact, every case has been immediately profitable to the Provincial Government in terms of direct income versus direct expenditure.

The Critical Industries Act received royal assent on June 28th, 1985, although we were able to start dealing with specific cases from the date of the announcement on April 9th, 1985. The Act contained a sunset clause automatically terminating it two years from its proclamation. However, many were skeptical that anything created by the government would ever actually terminate. So it is satisfying to be associated with one that will. In fact, the office will be closed March 31st, 1987. The legislation has done its job well.

This report covers the calendar year 1986. As you will note in the statistical summary following, there were 38 new enquiries within our mandate, of which 26 were dismissed after initial examination. Five economic plans were completed involving 1,400 employees. Since the Commission's inception in April, 1985, 10 economic plans were completed involving over 2,500 direct jobs.

Most of the companies that we have assisted have been important generators of economic activity in their community. This means that far more than 2,500 jobs have actually been involved. Thousands of indirect jobs, and indeed the futures of a number of communities, have been dependent on these important basic industries. It has been a great pleasure to have been associated with an activity that has brought so many smiles to the faces of so many deserving people.

The choice by the Provincial Cabinet of forest, mining and steel producers to be designated critical industries was carefully thought out and very appropriate. The companies that we assisted needed help because they were in trouble, but by helping them, we did not interfere significantly with any other companies. All too often governments have made large sums of money available to various enterprises to help them start new facilities, only to find that other competing concerns were forced to reduce or discontinue their operations. As a result, the expected increase in jobs turned out to be an illusion - at enormous cost to the government treasury.

If the Critical Industries approach were applied to companies competing amongst each other in the domestic market, it could do as much harm as good. It would be manifestly unfair to help such an operation as a hotel or a restaurant or a retail store at the expense of a competitor across the street. Particularly since the competitor might have actually been better managed and therefore not in need of help. With the best of intentions, government could create real chaos in the market place by trying to apply this principle to every industry in the province.

When we started the Commission, only forest producers and certain mining operations were defined as critical industries by the Cabinet. As a result of our experience in the first year, we were able to suggest extension of the mandate to other mines and to primary steel producers. We were not able to recommend that the mandate be extended to any other sectors because we did not believe that the process would work well.

One of the reasons for creating the Critical Industries Commission was to make creative use of the surplus hydro electric generating capacity that B.C. Hydro currently has available. When a hydro electric system has additional capacity, it can generate marginal electricity at a very low cost. Through the Critical Industries Act, B.C. Hydro has been able to offer electricity at a discount without losing money on the transaction. This has helped stimulate jobs in B.C. and earned additional revenue for B.C. Hydro. However, it is expected that B.C. Hydro's surplus generating capacity will be used up in the early 1990's. Since most of the contracts for discounted electricity last about 3 years, it is sensible to stop making new deals in 1987.

As it turns out, the number of companies coming in to seek our assistance has greatly diminished in recent months. By February, we were only dealing with 2 active cases, well down from the higher levels of 8-12 cases at a time that were normal. Thus the mid 1987 termination date is proving to be appropriate from all points of view.

It is an indication of a somewhat healthier resource sector that the number of cases has diminished. While the mining industry has not enjoyed any significant improvement, conditions have not deteriorated materially either.

The forest industry has definitely improved in spite of the export tax and a stronger dollar. Most of the companies in the industry are much stronger and more tightly managed now than they were in the boom period of 1979-81. At that time, there had been a great deal of over borrowing as inflationary expectations were going through the roof. Many companies borrowed money in spite of the very high interest rates. They felt that the assets they had purchased would be going up in price even faster. These expectations, of course, proved to be dramatically wrong. The result was that many companies went out of business while the stronger ones survived intact. In between, there were a number of companies that required restructuring to keep them going. Some were restructured in the private sector and some through the Critical Industries Commission.

There is another reason that I would not recommend the extension of the life of the Critical Industries Commission and that is a fear of where it would lead. I would be concerned that a permanent Commission would inevitably become bigger and more bureaucratic. It would soon be perceived as an arm of government rather than a quasi independent body and as a result, would lose its creativity and effectiveness.

But a more serious problem is the potential for political abuse in such wide open legislation. The Critical Industries Act gives the Commissioner and, with his recommendation, the government a great deal of power to override existing legislation. There are very few ground rules for the operations of the Commission in order to give it maximum flexibility. However, the potential for pork barrel politics and political favoratism is certainly present. Thankfully, I have never had the slightest bit of political interference in the conduct of the business of the Commission.

As I mentioned in the 1985 Annual Report, almost all the companies that we have worked with are moving in the direction of greater employee involvement in the running of the company. This may be through employee share ownership, profit sharing or other forms of participation. All of these companies are experiencing better than expected productivity gains which are undoubtedly at least partially due to the involvement of the employees. While none of the enterprises we have helped are guaranteed future success, the initial results have certainly been encouraging.

Again, I would like to thank my excellent staff - my executive assistant Murray Munro and executive secretary Leigh Potter - for their contribution. We have continued to utilize the talents available in the private sector and have been ably assisted by many individuals in a number of Provincial Government Ministries.

I would also like to thank Mr. Bob Skelly and the New Democratic Party for treating the Commission in a constructive, non political manner since its inception.

Finally, I would like to take this opportunity to thank former Premier Bill Bennett in particular for giving me the opportunity to serve in this capacity and for creating such an imaginative and effective piece of legislation.

Art Phillips

Arthur Phillips
Commissioner of Critical Industries

COMMISSIONER OF CRITICAL INDUSTRIES

Statistical Summary for the 12 Months Ended December 31, 1986

Total number of serious enquiries in forestry, mining and primary steel producing sectors	38
Cases dismissed after initial examination	26
Cases dropped after further examination	7
Cases assisted informally	4
Economic plans completed	5
Number of direct jobs involved in the completed economic plans	1,400

COMMISSIONER OF CRITICAL INDUSTRIES

Schedule of Operating Expenses for the 12 Months Ended December 31, 1986

Salaries (including Commissioner)	$ 92,348.39
Employee expenses (including travel)	4,023.71
Office Expenses	60,680.80
Professional Services	
Bull, Housser & Tupper Christensen, J.V. & Associates Ltd. Coopers & Lybrand Deloitte Haskins & Sells Price Waterhouse Samson Belair Thorne Ernst & Whinney Inc. Thorne Riddell Inc. Widman Management Ltd.	104,187.17
	$261,240.07

CLEARWATER TIMBER PRODUCTS LIMITED

Clearwater Timber Products operates three sawmills located at Clearwater, Vavenby and Valemount, B.C. The company employs about 250 members of the I.W.A. and about 50 management and non-union staff. The company has suffered financially since 1980 due primarily because of high debt costs associated with expansion. The company approached the Commission during the spring of 1985 and J.V. Christensen was retained to act on behalf of the Commission.

	Contributions by Participants
Toronto Dominion Bank	Converted $12 million of its loans to preferred shares and $1.5 million of its loans to common equity for a total annual saving to the company of $770,000.
Company	Invested an additional $500,000 in equity, provided a profit sharing plan for employees, reduced management salaries to a minimum and converted all shareholders' loans to equity.
I.W.A. Employees	Reduced holiday fringe benefits by $1,500 per member per year - which lowers costs by $375,000 per year for two years.
Province	Reduced the amount of outstanding taxes owing as at November 30, 1985 by 1/8th. This amounted to a savings of $310,000. The company agreed to repay the remaining $2,165,873 over 48 months at an annual interest rate of 10%.

GILBERT SMITH FOREST PRODUCTS LIMITED

Gilbert Smith Forest Products Limited, located at Barriere, B.C. employs 42 non-union employees plus 30 logging contractors. The company contacted the Critical Industries Commission during the summer of 1985 after experiencing 6 consecutive years of financial difficulty. The firm of Thorne Riddell was retained to act on behalf of the Commission.

	Contributions by Participants
Royal Bank	Reduced interest rates and monthly fees for a total annual savings of $22,000.
Shareholders	Injected $500,000 to reduce debt obligations with the Royal Bank. As well, the company instituted a profit sharing plan.
Employees	The employees, who are all non-union, reduced wage and salary costs including benefits by 10% for an annual saving of approximately $200,000.
Province	The province provided a grant of $39,000 pursuant to a 1982 request for emergency funding relief as a result of the spring flooding that washed out a logging road.

NEWMONT MINES LIMITED (First Economic Plan)

The Smilkameen open-pit mines and mill of Newmont Mines Limited are located 18 kilometers west of Princeton, B.C., producing copper-bearing concentrates containing by-product values in gold and silver. The mine employs approximately 320 people. The company approached the Critical Industries Commission in the spring of 1986 and the firm of Thorne Riddell was retained to act of behalf of the Commission.

	Contributions by Participants
B.C. Hydro	Provided electricity discounts of 20% from June 30, 1986 to December 31, 1988 for a maximum saving of $4 million over 2½ years. The discounts would be reduced if the profitability of the mine improves.
Employees	A 2 year labour contract, signed in 1985 before the company approached the Commission, resulted in a 15¢ per hour reduction in wages and benefits and significant improvements in work rules which have impacted positively on productivity.
Company	The company put in place a number of initiatives to reduce costs including reducing parts inventory, improving plant availability and purchasing used haulage trucks for a saving of $3 million

NEWMONT MINES LIMITED (Second Economic Plan)

In September 1986, Newmont Mines Limited approached the Critical Industries Commission for the second time with a request for additional assistance. This request was made on the basis of a major disappointment in the quality of the ore in the new ore body. Based on all available information it was determined that the mine would close without additional assistance.

	Contributions by Participants
B.C. Hydro	Provided electricity discounts of 50% from September 1, 1986 to December 31, 1988, 40% from January 1, 1989 to December 31, 1989, and by 30% from January 1, 1990 to June 30, 1990.
Employees	Union and non-union employees agreed to a 5% reduction in labour costs from February 1, 1987 to June 30, 1990.
Company	If the profitability of the mine improves sufficiently, the Hydro and employee contributions will be repaid and the employees will share in a profit sharing plan.

CLAYBURN INDUSTRIES LIMITED

Clayburn Industries is primarily engaged in the mining of clay and the manufacture, sale and installation of refractory products to the major heavy manufacturing industries of B.C., the Prairies and the U.S. Pacific Northwest. The company is located in Abbotsford, B.C. and employs 100 people. The company had been constrained by debt financing charges for a number of years and approached the Critical Industries Commission early in 1986. Deloitte Haskins and Sells was retained to act as the consultant.

	Contributions by Participants
Bank of Montreal	Converted $5 million of the bank loan into preferred shares which will save the company an estimated $325,000 per annum for 5 years.
B.C.D.C	Advanced the company $1.7 million at commercial interest rates to be repaid over 6 years, for the financing of its major capital expenditures.
Shareholders	Existing shareholders bought out the original majority shareholder and have also participated in the company's pay cut program.
Employees	Non-union and management employees have taken a 10% pay cut for an annual saving to the company of $100,000. The 10% rollback by the Teamsters will save an additional $168,000 per year.
B.C. Hydro	Reduced the charge on natural gas for a savings of $96,000 in each of the next 2 years and reduced the price of electricity by 40% in the 12 month period ending June 30, 1988, and by 20% in the 12 month period ending June 30, 1989 for a total saving of $224,000.

WESTERN CANADA STEEL LIMITED

Western Canada Steel, a producer of primary steel, is located in Richmond, B.C. and employs 400 people. The company has suffered financial difficulties in the last few years as a result of a downturn in the market, a disastrous strike lockout in 1983 and a massive capital expenditure program financed with bank debt. The company approached the Critical Industries Commission early in 1986 and the firm of Samson Belair was retained to act on behalf of the Commission.

	Contributions by Participants
C.A.I.M.A.W. Employees	C.A.I.M.A.W. employees agreed to a 2 year contract with no wage increase. In addition, both union and non-union employees agreed to defer 10% of wages during periods when the company is in a loss position.
Cominco	The parent of Western Canada Steel agreed to contribute $10 million of new money in the form of equity.
Royal Bank and Canadian Imperial Bank of Commerce	Both banks agreed to convert $18 million of debt into distress preferred shares, for an estimated saving to the company of $1.5 million per year.
Municipality of Richmond	Provided a 30% reduction in municipal taxes for 1987, 1988 and 1989. This will save the company approximately $72,000 per year.
Province	Provided a 30% reduction in provincial school taxes for 1987, 1988 and 1989. This will save the company approximately $90,000 per year.
B.C. Hydro	Agreed to a 20% discount during the 12 months ending June 30, 1987, a 15% discount in the 12 months ending June 30, 1988 and a 10% discount in the 12 months ending June 30, 1989, on the previously negotiated 1878 rate. This will save the company approximately $1.1 million over the next 3 years.

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